

Message Text

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ACTION NEA-16

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03

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NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01 SCI-06

SP-03 SS-20 STR-08 TRSE-00 FRB-03 DRC-01 FEA-02 /150 W

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R 270610Z AUG 74

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 6445

INFO AMEMBASSY NEW DELHI

AMEMBASSY KABUL

AMEMBASSY DACCA

AMCONSUL KARACHI

AMCONSUL LAHORE

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E.O. 11652: N/A

TAGS: BPRO, ENRG, PK

SUBJECT: TEXASGULF OIL AND GAS CONCESSIONS

REF: A. STATE 111374

B. KARACHI 1200

C. ISLAMABAD 5174

1. SUMMARY. TEXASGULF OFFICIALS INITIALED CONCESSION AGREEMENT WITH GOP ON AUGUST 26. AGREEMENT IS ESSENTIALLY ON TEXASGULF TERMS AND REPRESENTS OBVIOUS REVERSAL IN GOP ATTITUDES FROM MEETING IN MID-JUNE. TEXASGULF PLANS BEGIN IMMEDIATE ADMINISTRATIVE ARRANGEMENTS TO HAVE GRAVITY CREW IN FIELD BY FIRST OF CY 75 AND WILL BEGIN DRILLING OPERATIONS WTIHIN 24-36 MONTHS. END SUMMARY.

2. JOSEPH C. BROWN, ASSISTANT GENERAL COUNSEL, AND FRANK MOULTON, VICE PRESIDENT OF TEXASGULF, HOUSTON, DEPARTED

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ISLAMABAD JUNE 22 IN VERY DISCOURAGED MOOD. THEIR LENGTHY

NEGOTIATIONS HAD REACHED SEEING IMPASSE ON PROBLEMS OF REPATRIATION OF CAPITAL AND PERMISSION TO EXPORT NATURAL GAS. ON JULY 20, TEXASGULF, HOUSTON, RECEIVED WORD THAT GOP REQUIRED 30 COPIES OF LATEST DRAFT OF CONCESSION AGREEMENT. WHEN TEXASGULF OFFICIAL ARRIVED WITH THESE DOCUMENTS, HE WAS INFORMED THAT GOP WISHED TEXASGULF NEGOTIATING TEAM COME TO ISLAMABAD ASAP TO NEGOTIATE FINAL AGREEMENT. MESSRS, BROWN AND MOULTON FOUND AN ENTIRELY NEW ATTITUDE UPON ARRIVAL THIS PAST WEEK WHICH THEY ATTRIBUTE EQUALLY TO A NEW SECRETARY IN THE RESPONSIBLE MINISTRY, H.U. BEG, AND TO CONVERSATIONS THE AMBASSADOR HAD HAD ON THE SUBJECT OF OIL CONCESSIONS WITH PM BHUTTO.

3. THE PROBLEM OF REPATRIATION OF CAPITAL WAS EASILY SETTLED. EARLIER STANDARD AGREEMENTS ON FOREIGN INVESTMENT HAD REQUIRED AN EXTENDED DEPRECIATION OVER APPROXIMATELY 16 YEARS. TEXASGULF PAKISTANI CONSULTANT BHIAZIA POINTED OUT TO GOP THAT THIS WAS REASONABLE IN MANUFACTURING CONCERNS TO ASSURE ADEQUATE RESERVES FOR REPLACEMENT OF CAPITAL MACHINERY. HOWEVER, ONCE OIL RESERVES DEPLETED IT NOT NECESSARY TO REPLACE MACHINERY. TEXASGULF DID NOT INDICATE TERMS OF THEIR AGREEMENT BUT INDICATED IT WAS ENTIRELY SATISFACTORY BY INTERNATIONAL INVESTMENT STANDARDS.

4. STANDARD GOP CONCESSION AGREEMENTS DID NOT PERMIT EXPORT OF NATURAL GAS. POSSIBILITY OF FINDING GAS IN PAKISTAN BELIEVED TO BE MUCH HIGHER THAN POTENTIAL FOR OIL BUT GOP-CONTROLLED WELLHEAD PRICE MAKES PRODUCTION FOR DOMESTIC MARKET UNATTRACTIVE FOR INTERNATIONAL FIRM. AS COMPROMISE AT TIME OF EARLIER VISIT, TEXASGULF REQUESTED PERMISSION TO EXPORT ONLY IF THEY FOUND PROVEN RESERVES GREATER THAN 3 TRILLION CUBIC FEET WHICH IS SIZE OF SECOND LARGEST KNOWN PAKISTAN FIELD (MARI). WHEN GOP INVITED TEXASGULF BACK, IT WAS RUMORED THAT COUNTERPROPOSAL WOULD SET THIS FIGURE AT 9 TRILLION CUBIC FEET, APPROXIMATE SIZE OF PAKISTAN'S SUI FIELD. TEXASGULF USED GOP'S OWN STATISTICS TO SHOW THAT PRESENT GAS RESERVES PLUS 3 TRILLION CUBIC FEET FROM ANY NEW DISCOVERY WOULD PROVIDE PAKISTAN WITH 42-YEAR SUPPLY IF 1985 PROJECTION OF UTILIZATION WOULD ACTUALLY START IN 1979. FINALLY, AFTER LIMITED OFFICIAL USE

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SEVERAL DAYS IN TRYING TO DISCOVER WHAT GOP REALLY REQUIRED AS COMPROMISE, IT WAS HINTED THAT ANY FIGURE ABOVE 3 TRILLION CUBIC FEET MIGHT BE ACCEPTABLE. TEXASGULF TEAM OFFERED TO INCREASE THE FIGURE BY 10 PERCENT TO 3.3 TRILLION CUBIC FEET WHICH WAS IMMEDIATELY ACCEPTED. THE AGREEMENT WAS INITIALED ONE DAY AFTER THE VERBAL AGREEMENT.

5. THE EVENTUAL SIGNING OF THE AGREEMENT IS TENTATIVELY SET

FOR OCTOBER 14. TEXASGULF PLANS TO HAVE SOME ADMINISTRATIVE PERSONNEL IN PAKISTAN AROUND THAT DATE WITH A GRAVITY CREW OPERATING BY THE FIRST OF THE YEAR. THEY HAVE A DRILLING COMMITMENT BEFORE THE END OF THE THIRD YEAR OF THE CONTRACT BUT MAY BE ABLE TO BEGIN DRILLING AT THE BEGINNING OF THAT YEAR.

6. CONCESSION AREA TOTALS 11,120 SQUARE MILES DIVIDED INTO THREE PLOTS ALL LOCATED ON SHORE LARGELY IN SIND THOUGH SMALL PORTION OF ONE PLOT EXTENDS INTO BALUCHISTAN AND ANOTHER INTO PUNJAB. OPERATIONAL HEADQUARTERS WILL BE LOCATED AT KARACHI.

7. COMMENT. THE COMPLETE CHANGE IN ATTITUDE REPORTED BY THE TEXASBULF TEAM CONFIRMS A REPORT FROM AN AMOCO EXPLORATION OFFICIAL IN PAKISTAN. IT WOULD APPEAR THAT PM BHUTTO'S PERSONAL INTEREST IN OIL EXPLORATION MAY HAVE SHAKEN THE BUREAUCRACY AND STARTED WHEELS MOVING. CERTAINLY, CONCESSION TO TEXASGULF ON EXPORTATION OF NATURAL GAS SHOULD REKINDLE THE INTEREST OF OTHER OIL EXPLORATION FIRMS IN PAKISTAN. ANOTHER FAVORABLE FEATURE FOR PAKISTAN REPORTED BY TEXASGULF TEAM AS COMPLETELY UNIQUE IN CONCESSION NEGOTIATIONS OUTSIDE THE US WAS THE COMPLETE LACK OF ANY REQUEST FOR PAYMENTS UNDER THE TABLE. BROWN AND MOULTON WERE MOST APPRECIATIVE OF ASSISTANCE GIVEN BY AMBASSADOR AND EMBASSY STAFF.

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